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CASE STUDY 03 · VAT RETURNS & HMRC CORRESPONDENCE

HMRC Had Questions. The Return Had Answers.

Quarterly VAT preparation, HMRC correspondence, and the careful handling of historical input VAT for a UK limited company.

PLATFORM	CLIENT
Xero	UK Limited Company

SERVICE
Quarterly VAT Preparation & HMRC Correspondence

ADDITIONAL ISSUE
Approximately £20,000 of previously unclaimed input VAT identified



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SECTION 01 · THE SITUATION

A VAT Return Due. An HMRC Enquiry Open.

The assignment involved ongoing quarterly VAT preparation while an existing HMRC information request remained unresolved.

01

Open HMRC Information Request

HMRC had requested confirmation of the accounting scheme being used by the company. The relevant correspondence needed to be reviewed and answered accurately.

An information request is not, in itself, an allegation of wrongdoing or a formal investigation.

02

Approximately £20,000 of Historical Input VAT

The review identified input VAT from earlier periods that had not previously been claimed. The source describes this as a potential recovery opportunity.

Identifying input VAT is not the same as establishing that it is recoverable. Entitlement depends on evidence and the applicable rules.

03

Accounting Scheme Uncertainty

The client believed the business was using cash accounting, while the related records and correspondence suggested a different basis. The applicable scheme needed to be established from documentation.

A difference between a client's understanding and the records does not by itself prove which method legally applied.

ENGAGEMENT SEQUENCE

Existing HMRC information request → **Quarterly VAT preparation** → **Historical input VAT review**

Accurate VAT preparation begins with accurate records, clear supporting evidence, and an understanding of the applicable accounting scheme.

£20,000 Identified. A Separate Recovery Question.

Historical input VAT required careful review rather than automatic inclusion in the current quarterly return.

PREVIOUSLY UNCLAIMED INPUT VAT

~£20,000

Identified during the review

The amount relates to earlier accounting periods and was deliberately kept separate from the current return while the historical position and the appropriate correction method were considered. Identifying potential input VAT is distinct from establishing that it is legally recoverable.

PREPARED NOW	REVIEWED SEPARATELY
Current quarter	**Historical periods**

01 

Historical Transactions

Review which accounting periods the unclaimed input VAT belonged to, and establish whether the relevant invoices and supporting evidence are available.

02 

Claim Eligibility

Establish whether the amounts satisfy the applicable input-tax recovery rules, including the relevant accounting scheme and the statutory time limits.

03 

Correction Method

Determine whether any eligible amounts should be adjusted through a later VAT return or notified separately to HMRC under the applicable error-correction rules.

Separate the reporting periods. Verify the evidence. Apply the appropriate correction process.

Evidence First. Then the VAT Return.

A structured preparation process designed to ensure that the submitted figures could be supported by the underlying records. · Platform: Xero

01

Verify the Supporting Invoices

- Review the underlying invoices supporting the relevant VAT figures.
- Match the claimed amounts to the available source documentation.
- Organise the evidence so the figures can be understood and explained.

02

Prepare the Supporting Documentation

- Compile a clearly organised evidence pack.
- Ensure invoices, accounting entries and explanations can be located efficiently if further information is requested.

03

Clarify the Accounting Scheme

- Review the accounting records and the relevant HMRC correspondence.
- Investigate whether cash accounting or standard VAT accounting applied.
- Resolve the discrepancy from documentation rather than assumption.

04

Review Historical Input VAT Separately

- Keep earlier-period amounts distinct from the current return.
- Carry out the eligibility, timing and correction-method checks.
- Organise the records for the next appropriate step.

05

Obtain Client Approval and Submit

- Present the prepared return and explanations to the client.
- Obtain approval before submission.
- Submit the approved return in line with the documented process.

An evidence-led workflow brought together the accounting records, supporting documents, HMRC correspondence and the client approval process.

Why Separate the Historical VAT?

The current return and the earlier-period transactions required different accounting and procedural considerations.

HYPOTHETICAL APPROACH

Include the historical amount without separate review

Shown for comparison — not a recommendation.

- Earlier accounting periods may need separate examination.
- The relevant invoices and evidence must support the amounts claimed.
- Eligibility and statutory time limits must be checked.
- Existing inaccuracies need assessing under the error-correction rules.
- An incorrect adjustment could prompt further questions or later correction.

APPROACH TAKEN

Review the current and historical periods separately

As documented in the engagement.

- Prepare the current quarterly return using current-period information.
- Support the submitted figures with appropriate documentation.
- Answer HMRC's accounting-scheme question accurately.
- Identify and retain the historical records.
- Review eligibility and use the appropriate correction method for earlier periods.

IMPORTANT VAT PRINCIPLE

The correct correction method and time limits depend on the circumstances of the transactions. The time limit is generally four years — for under-claimed input tax, running from the due date of the return for the period in which the error occurred.

Whether a net error may be adjusted on a later return or must be notified separately depends on the **net** value of the errors and its relationship to the box 6 figure — not on the gross amount identified. A £20,000 gross input VAT figure does not, by itself, determine the route.

Reference: HMRC VAT Notice 700/45, *How to correct VAT errors and make adjustments or claims*. HMRC now provides an online notification service; thresholds and procedures should be confirmed against the current guidance at the time of correction.

SECTION 05 · DOCUMENTED RESULTS

The Outcome

An approved quarterly VAT return, an answer to the accounting-scheme question, and a separate plan for the historical input VAT issue.

01

Documented VAT Return Filed

The quarterly VAT return was prepared, reviewed, approved by the client and filed with supporting documentation.

No HMRC audit or formal approval of the return is implied.

02

Scheme Question Answered

The accounting-scheme question raised by HMRC was addressed and the relevant information provided.

This does not confirm that the wider enquiry was formally closed.

03

Historical Input VAT Identified

Approximately **£20,000** of previously unclaimed input VAT was kept separate for the appropriate historical review and correction process.

Identified and retained for review — not recovered, refunded or secured.

04

Client Approval Obtained

The client reviewed and approved the prepared return and the accompanying explanations before anything was filed.

Proper documentation and client approval provided a clear basis for the quarterly submission, while the historical VAT issue remained subject to its own review.

Built on Evidence. Managed with Transparency.

Careful documentation, clear communication and client approval formed the basis of the engagement.

01

Documented Figures

The VAT return was prepared using the available supporting invoices and accounting records.

02

Organised Supporting Evidence

A supporting documentation pack was prepared so the relevant records could be produced and explained when needed.

03

Clear Client Communication

The client was kept informed about the current return, the HMRC correspondence and the separate historical VAT issue.

04

Approval Before Submission

Client approval was obtained before the return was filed.

ENGAGEMENT SUMMARY

Every figure traceable to a source document

- Source invoices reviewed
- Accounting records matched
- Documentation pack prepared
- HMRC scheme question answered
- Client review and approval
- **Return submitted**

No client names, VAT registration numbers, invoice references or correspondence dates are reproduced in this case study.

WORK WITH ME

VAT Returns Should Be Prepared with Confidence.

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Professional bookkeeping, reconciliation, financial reporting and VAT preparation support for UK businesses and accounting firms.

VAT Preparation & Support

Preparation of VAT records, supporting documentation, transaction reviews and assistance with relevant VAT correspondence.

Full-Cycle Bookkeeping

Complete bookkeeping support, transaction management and accurate financial record maintenance.

Cleanup & Catch-Up Bookkeeping

Historical transaction review, correction of bookkeeping errors and preparation of overdue accounting records.

Bank & Credit Card Reconciliation

Reconciliation of bank accounts, identification of discrepancies and resolution of unmatched transactions.

Financial Reporting

Preparation of Profit & Loss Statements, Balance Sheets and Trial Balances.

Monthly Bookkeeping Support

Ongoing bookkeeping, transaction categorisation, reconciliations and reporting support.

SOFTWARE: QuickBooks Online · QuickBooks Desktop · Xero · Wave · AppFolio · A2X

This engagement was carried out in Xero.

FOR BUSINESS OWNERS

Need help with overdue bookkeeping, quarterly VAT preparation or difficult reconciliations?

MESSAGE **CLEANUP**

FOR ACCOUNTING FIRMS

Need additional bookkeeping capacity or reliable assistance with complex reconciliations and VAT preparation?

MESSAGE **CAPACITY**

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SCAN TO VISIT

Clean Books. Clear Financials. Confident Decisions.